Shareholder's Instructions for 2000 Schedule 5K-1

General Instructions

Item to Note – A tax-option (S) corporation may pass through to its shareholders manufacturer's sales tax credits computed for taxable years beginning on or after January 1, 1998. The credit may offset only the Wisconsin income tax imposed on a shareholder's pro rata share of the corporation's net income.

Purpose of Schedule 5K-1 – Similar to federal Schedule K-1, the corporation uses Schedule 5K-1 to report your pro rata share of the corporation's income, deductions, credits, etc., for Wisconsin purposes. Please keep it for your records. Do not file it with your tax return unless you are claiming a tax credit passed through from the corporation.

Although the corporation may have to pay a built-in gains tax, a franchise tax measured by certain federal, state, and municipal government interest income, and a recycling surcharge, you, the shareholder, are liable for Wisconsin income tax on your share of the corporation's income, whether or not distributed, and you must include your share on your Wisconsin income tax return if a return is required.

Use these instructions to help you report the items shown on Schedule 5K-1 on your Wisconsin income tax return.

Basis of Your Stock – You are responsible for maintaining records to show the computation of the basis of your stock in the corporation for Wisconsin income tax purposes. Schedule 5K-1 provides information to help you make the computation at the end of each corporate taxable year. The Wisconsin basis of your stock (generally, its cost) is adjusted as follows (this list is not all-inclusive):

Basis is first ***increased*** by:

- All income (including tax-exempt income), as computed under Wisconsin law, reported on Schedule 5K-1.

  Note: You must report the taxable income on your Wisconsin income tax return (if you are required to file a return) for it to increase your basis.

Basis is ***decreased,*** but not below zero, by:

- Property distributions, including cash, made by the corporation, reported on Schedule 5K-1, line 19, that are not includable in income. (Distributions in excess of Wisconsin basis reported on Schedule 5K-1, line 19, and dividend distributions reported on Schedule 5K-1, line 20, don't decrease basis.)
- Nondeductible expenses, as computed under Wisconsin law.
- All deductible losses and deductions, as computed under Wisconsin law, reported on Schedule 5K-1.

  Note: You may elect to decrease your basis by deductible losses and deductions prior to decreasing your basis by nondeductible expenses. If you make this election, any nondeductible expenses that exceed the basis of your stock and debt owed to you by the corporation are treated as nondeductible expenses for the following taxable year. To make the election, attach a statement to your timely-filed original or amended return, as provided in the federal regulations. Once made, the election applies to the year for which it is made and all future taxable years for that corporation, unless the department agrees to revoke your election.
- Your share of the supplement to the federal historic rehabilitation tax credit computed.

Note: When figuring the Wisconsin basis in stock of a multistate corporation, use your share of the total company amounts, as computed under Wisconsin law, rather than the income, losses, and deductions attributable to Wisconsin activities.

Inconsistent Treatment of Items – Generally, you must report tax-option items shown on your Schedule 5K-1 (and any attached schedules) the same way that the corporation treated the items on its return. If your treatment is (or may be) inconsistent with the corporation's treatment, attach a statement to your return to identify and explain any inconsistency.

Errors – If you believe the corporation has made an error on your Schedule 5K-1, notify the corporation and ask for a corrected Schedule 5K-1. Don't change any items on your copy. Be sure that the corporation sends a copy of the corrected Schedule 5K-1 to the Wisconsin Department of Revenue.

Elections – Generally, the corporation decides how to figure taxable income from its operations. For example, it chooses the accounting method and depreciation methods it will use. However, certain elections are made by you separately on your income tax return and not by the corporation. These include elections made under Internal Revenue Code section 59(e), relating to the deduction of certain qualified expenditures ratably over the period of time specified in that section (see lines 15a and 15b).

Limitations on Losses, Deductions, and Credits

Aggregate Losses and Deductions Limited to Basis of Stock and Debt – Generally, the deduction for your share of aggregate losses and deductions reported on Schedule 5K-1 is limited to the basis of your stock and debt owed to you by the corporation. The basis of your stock is figured at year end. The basis of loans to the corporation is the balance the corporation now owes you, less any reduction for losses in a prior year. Any loss not allowed for the taxable year because of this limitation is available for indefinite carryover, limited to the basis of your stock and debt, in each subsequent taxable year.

At-Risk Limitations – For federal purposes, if you have (1) a loss or other deduction from any activity carried on by the corporation as a trade or business or for the production of income, and (2) amounts in the activity for which you aren't at risk, you generally will have to figure the allowable loss. The at-risk rules generally limit the amount of loss (including loss on disposition of assets) and other deductions (such as the section 179 expense deduction) that you can claim to the amount you could actually lose in the activity. The at-risk rules also apply for Wisconsin purposes.

Passive Activity Limitations – Internal Revenue Code section 469 provides rules that limit the deduction of certain losses. The rules apply to shareholders who are individuals, estates, or trusts and have a passive activity loss. Passive activities include trade or business activities in which you don't materially participate and rental activities, as defined in the federal regulations. Rental real estate activities in which you materially participated are not passive activities if you meet certain eligibility requirements. The corporation will identify separately each activity that may be passive to you. You must determine whether your losses are limited by the passive activity rules.

The passive activity loss limits also apply for Wisconsin purposes. However, if there are differences between your federal and Wisconsin income, you may have to recompute the amount of passive activity loss deductible for Wisconsin.

There are three types of differences between federal and Wisconsin income: Schedule I adjustments, those resulting from making different elections for federal and Wisconsin purposes, and modifications to federal adjusted gross income prescribed in section 71.05(6) to (12), (19), and (20), Wisconsin Statutes.

A Schedule I adjustment may arise if a provision of the Internal Revenue Code doesn't apply for Wisconsin or if a federal law change becomes effective at a different time than for federal purposes. Modifications to federal adjusted gross income include the addition of state and local government bond interest income and the subtraction of the 60% capital gain deduction.

For differences resulting from Schedule I adjustments or different elections, you must recompute the passive activity loss limits for Wisconsin. However, you may not recompute the loss limits for modifications.

Specific Instructions

Name, Address, and Identifying Number – Your name, address, and identifying number, the corporation's name, address, and federal employer identification number, and items A through E should have been entered, if appropriate.

Lines 1 through 11 and 15 – The entries on these lines show your pro rata share of the federal amount, adjustment, and amount reportable under Wisconsin law for each of the items. These amounts don't take into account limitations on losses or other items that may have to be adjusted because of (1) the adjusted basis of your stock and debt in the corporation, (2) the at-risk limitations, (3) the passive activity limitations, or (4) any other limitations. If your pro rata share items aren't affected by any of the limitations, you should have reported the federal amounts on your federal income tax return. If any of the limitations apply, you should have adjusted the federal amounts for the limitations before entering them on your federal return.

If the Wisconsin amount for any share item on lines 1 through 11 and 15 differs from the federal amount, you must account for this difference on your Wisconsin income tax return. How you account for the difference depends on the share item, the reason for the difference, and whether you are filing Form 1 (Wisconsin residents) or Form 1NPR (part-year residents and nonresidents).

If the difference is identified as a Schedule I adjustment, you must complete Wisconsin Schedule I. If the difference results from the corporation making different elections for federal and Wisconsin purposes, you must recompute the federal adjusted gross income that you report on Form 1 or Form 1NPR. Finally, if the difference is a modification allowed in computing Wisconsin adjusted gross income, the treatment depends on which share item is affected and whether you are filing Form 1 or Form 1NPR.

Lines 1, 2, 3, 4a, 4b, 4c, 4f, 6, 8, 10, and 15:

- If you are filing Form 1, account for any modification to one of these share items by combining the amount from Schedule 5K-1, column c, with any other Wisconsin modification and entering the total on the appropriate line of Form 1.
- If you are filing Form 1NPR, include in column B on the appropriate line of Form 1NPR, along with any other Wisconsin income or loss, the Wisconsin amount (column d) of any share item reported on one of these lines, which is modified for Wisconsin income tax purposes.

Lines 4d and 4e: Enter the Wisconsin amounts (column d) of these share items on the appropriate lines of Wisconsin Schedule WD.

Line 5: If the federal and Wisconsin amounts differ, see the instructions for Part II of Wisconsin Schedule T and recompute a federal Form 4797 as instructed.

Lines 7, 9, 10, and 11: If the Wisconsin amount of charitable contributions or the amount of any other itemized deduction differs from the federal amount, adjust the deduction items from federal Schedule A when figuring the Wisconsin itemized deduction credit (Form 1 or Form 1NPR, Schedule 1). Increase or decrease, as appropriate, the amount from federal Schedule A by the amount(s) on Schedule 5K-1, column c.

Note: Rather than including the tax-option items deductible on federal Schedule A in the Wisconsin itemized deduction credit, you may treat these items as subtraction modifications to arrive at Wisconsin adjusted gross income. Your modification is limited to the amount actually deductible for federal purposes. If you are a nonresident of Wisconsin for any part of the corporation's taxable year, your modification is further limited to that portion of the deductible amount which is attributable to Wisconsin (based on apportionment or separate accounting, as appropriate). You can obtain this information from the corporation.

Line 12a – Enter the amount from line 12a, column d, on the appropriate line on Wisconsin Schedule MS.

Line 12b – Enter the amount from line 12b, column d, on the appropriate line on Wisconsin Schedule DC.

Line 12c – Enter the amount from line 12h, column d, on the appropriate line on Wisconsin Schedule HR.

Note: The historic rehabilitation credit reduces your Wisconsin basis in the corporation's stock.

Line 13 – Enter the total of the amounts from line 13, column d, on the "Net income tax paid to other states" line (Form 1, line 38, or Form 1NPR, line 59). If you are claiming this credit, you must attach a copy of Schedule 5K-1 to the Form 1 or Form 1NPR you file with the department.

Lines 14a through 14e – Enter the net amount from column c of lines 14a through 14e on Wisconsin Schedule MT, line 8.

Line 16 – Interest income that is exempt from federal income taxes but taxable by Wisconsin, such as state and local government bond interest, is shown in column c. Include the amount from column c, as a positive number, on Form 1, line 2, or on Form 1NPR, line 2, column B.

Lines 17 and 18 – Differences in the amount of income that is exempt for federal and Wisconsin purposes are shown on line 17, column c. Increases or decreases in the amount of nondeductible expenses are shown on line 18, column c.

Line 19 – Reduce your Wisconsin basis in stock of the corporation by the Wisconsin distributions on line 19, column d. If these distributions exceed your Wisconsin basis in stock and you were a Wisconsin resident when you received the distributions, treat the excess as a Wisconsin gain from the sale or exchange of property. Enter any Wisconsin gain on the appropriate line of Wisconsin Schedule WD.

Line 20 – You must report the amount from column d as dividend income if you were a Wisconsin resident on the date you received the dividend distribution. The federal amount of the dividend distribution should have been reported to you on Form 1099-DIV.

If you are filing Form 1, enter the amount from line 20, column c, on Form 1, line 4 or 11, as appropriate. If you are filing Form 1NPR and the dividend distribution is reportable to Wisconsin, enter the amount from line 20, column d, on Form 1NPR, line 3, column B, along with any other dividend income reportable to Wisconsin.

Line 21 – If the repayments on line 21 are made on indebtedness with a reduced Wisconsin basis and you received the repayments while you were a Wisconsin resident, the repayments result in income to you to the extent the repayments are more than the adjusted Wisconsin basis of the loan.

If you are filing Form 1, enter the amount of Wisconsin income realized on Wisconsin Schedule WD, if the loan was a capital asset. If the loan wasn't a capital asset, enter the difference between federal income and Wisconsin income on Form 1, line 4 or 11, as appropriate.

If you are filing Form 1NPR, enter the amount of Wisconsin income realized on Wisconsin Schedule WD, if the loan was a capital asset, or in column B of the appropriate line on Form 1NPR, if the loan wasn't a capital asset.

Line 22 – Combine the amount from column d with your gross Wisconsin income from other sources (if any) to determine whether you must file a Wisconsin income tax return.

Line 23 – If applicable, the corporation has provided supplemental information or has listed in the space provided, or on attached schedules, your pro rata share of items not included on lines 1 through 22. This listing should include the federal amount, adjustment, and Wisconsin amount for each item.

If interest income from United States government obligations is listed, you must make an adjustment on your Wisconsin return since this income is taxable for federal income tax purposes, but not for Wisconsin purposes. If you are filing Form 1, include the federal amount of this interest income on line 7. If you are filing Form 1NPR, don't include this interest income on Form 1NPR, line 2, column B.

Account for any other share items listed on line 23 as necessary to include the amount of each item as computed under Wisconsin law in your Wisconsin income.